STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Teachers' Retirement System's (Plan) financial position and performance for the year ended June 30, 2002. It is presented as a narrative overview and analysis. Please read this in conjunction with the Letter of Transmittal included in the Introductory Section, the financial statements and other information which are presented in the Financial Section of this report.

Financial Highlights

The Plan's total assets exceeded its liabilities by $3,689,036,000 at the close of Fiscal Year 2002.

The Plan's net assets held in trust for pension and postemployment healthcare benefits decreased by $397,812,000 or 9.7% from the closing balance of those assets in Fiscal Year 2001.

Net contributions totaled $112,476,000, a decrease of 0.4% over Fiscal Year 2001.

Net investment losses decreased from ($245,363,000) to ($225,234,000), a decrease of 8.2% over Fiscal Year 2001.

Benefit payments totaled $279,843,000, an increase of 7.7% over Fiscal Year 2001.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total liabilities. The Statement of Plan Net Assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

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Management's Discussion and Analysis

Condensed Financial Information

Teachers' Retirement System
(000's omitted)

NET ASSETS

Description	2002	2001	Increase (Decrease)
Assets:			
Cash and receivables	$ 10,955	15,403	(4,448)
Investments, at fair value	3,681,951	4,075,096	(393,145)
Other assets	71	443	(372)
Total assets	3,692,977	4,090,942	(397,965)
Liabilities:			
Accrued expenses	3,418	4,022	(604)
Other liabilities	523	72	451
Total liabilities	3,941	4,094	(153)
Total net assets	$ 3,689,036	4,086,848	(397,812)

CHANGES IN NET ASSETS

Description	2002	2001	Increase (Decrease)
Net assets, beginning of year	$ 4,086,848	4,484,902	(398,054)
Additions:			
Contributions	112,476	112,866	(390)
Net investment loss	(225,234)	(245,363)	20,129
Other additions	4	(4)	8
Total additions	(112,754)	(132,501)	19,747
Deductions:			
Benefits	279,843	259,873	19,970
Refunds	3,120	3,742	(622)
Administrative expenses	2,095	1,938	157
Total deductions	285,058	265,553	19,505
Decrease in net assets	(397,812)	(398,054)	242
Net assets, end of year	$ 3,689,036	4,086,848	(397,812)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets at the close of June 30, 2002 showed total assets exceeding total liabilities by $3,689,036,000. This amount represents the total plan assets held in trust for pension and postemployment healthcare benefits. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries.

This amount also represents a decrease in net assets of $397,812,000, or 9.7% from Fiscal Year 2001. The decrease is mainly due to declines in the value of investment portfolios, which reflect the substantial financial market declines of this fiscal year. The decline was partially offset by employer and plan member contributions of $112,476,000.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2002, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 18% in International Equities, 31% in Domestic Fixed Income, 3% in International Fixed Income, and 7% in Real Estate.

For Fiscal Year 2002, the Plan's investments generated a –5.49% rate of return. The Plan's annualized rate of return was –0.49% over the last three years and +4.60% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in Fiscal Year 2002 and a rolling amortization of the funding target surplus or the unfunded target accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased from 99.6% to 95.0% during the year, using June 30, 2001 net assets as a base. Over the years, progress has been made toward achieving the funding objectives of the Plan.

The Division of Retirement and Benefits implemented a new administrative computer system called the Combined Retirement System (CRS) in 2000. The new computer system provides more accurate data to be used in the annual actuarial valuation. Due to the differences in data between the old and new computer systems, there were minor one-time data adjustments, which affected the liabilities calculated for the Plan. A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

	Millions	
Valuation Year	**2001**	**2000**
Valuation Assets	$ 4,372.2	4,184.0
Accrued Liabilities	4,603.2	4,198.9
Funding ratio	95.0%	99.6%

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Management's Discussion and Analysis

Contributions and Investment Income (Loss)

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

	Revenues			
	Millions		Inc/(Dec)	
	FY02	FY01	Amt	%
Plan Member Contributions	$ 51.1	48.7	2.4	4.9%
Employer Contributions	61.4	64.2	(2.8)	(4.4)%
Net Investment Loss	(225.2)	(245.4)	20.2	8.2%
Total	**$(112.7)**	**(132.5)**	**19.8**	**14.9%**

Over the long term, the investment portfolio has been a major component in additions to plan assets. However, in Fiscal Year 2002, the Plan suffered its second consecutive year of significant losses. This reflects the substantial reversals in the major equity markets during these time frames.

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members and the cost of administering the Plan comprise the costs of operation.

	Expenses			
	Millions		Inc/(Dec)	
	FY02	FY01	Amt	%
Pension Benefits	$ 222.9	211.0	11.9	5.6%
Healthcare Benefits	57.0	48.9	8.1	16.6%
Refunds of Contributions	3.1	3.8	(0.7)	(18.4)%
Administrative Expenses	2.1	1.9	0.2	10.5%
Total	**$ 285.1**	**265.6**	**19.5**	**7.3%**

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the Plan granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in healthcare benefits is due to the increase in retirees and rising costs of providing such benefits.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are determined by statute.

Legislation

During the Fiscal Year 2002 legislative session, one law was enacted that affected the Plan:

House Bill 254 – This bill was written to bring the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS) into compliance with federal tax law and keep the plans qualified for pretax contributions. Much of the bill is technical in nature but several benefits were added.

Public employees and teachers will be allowed to purchase service credit in their retirement plans with transfers of pretax savings from certain plans allowed by the Internal Revenue Code or through pretax payroll deductions. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) gave retirement plans the authority to accept pretax purchases of service credit with transfers from IRC 457 and 403(b) plans. Passage of HB 254 gives Alaskan public employees and teachers the ability to take advantage of them.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Management's Discussion and Analysis

The Plan is awaiting approval from the Internal Revenue Service (IRS) before implementing pretax payroll deductions to pay down an indebtedness.

Several other changes were made to the retirement systems during 2002. Together, these changes have the following effect on the systems:

1. Creates an incentive for retired public employees to enter teaching by reducing the requirement for a TRS "conditional service benefit" from two years to one year. A retired PERS member will now be able to teach one year in a TRS covered position and earn a TRS pension benefit.
2. Allows PERS members who were temporary employees of the legislature before July 1, 1979, to claim that service. Prior to July 1, 1979, temporary legislative employees were not allowed in PERS. The new law allows PERS members to claim this service. The service must be claimed no later than July 1, 2003, or by the date of retirement if sooner. A member is eligible to receive up to 10 years of credited service for service as a temporary employee of the legislature of the state or territory during legislative sessions before July 1, 1979. Members claiming this legislative service must pay the full actuarial cost of the associated pension and health benefits.
3. Allows a disabled peace officer or fire fighter to elect the higher of their disability benefit or their normal retirement benefit upon reaching normal retirement age. Currently, they are automatically converted to a normal retirement benefit, which often has the effect of reducing their pension benefit.
4. Increases the death benefit for survivors of peace officers or fire fighters who die on the job from 40% of final salary to the higher of 50% of final salary or 75% of the normal retirement benefit the officer would have earned had the officer survived to normal retirement.
5. Changes the number of years for calculation of average monthly compensation for peace officers and fire fighters from five years to three years.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

The financial market environment during the period July 1, 2001 through June 30, 2002 was another harsh and challenging one. The Plan's results for this period reflected this environment. While equities have typically outperformed other investment types over longer periods, equity investments can yield disappointing or even negative returns for indefinite periods of time.

The impact of Fiscal Year 2002's decline on the Plan's market value will impact both the Fiscal Year 2005 employer rates as well as the Plan's funding status as of June 30, 2002. The Plan and its employer members will know the impact of this continued stock market decline in March 2003, when the Fiscal Year 2005 employer consolidated rate will be known.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Teachers' Retirement System, Division of Retirement and Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

KPMG

701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2002 and 2001, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, effective July 1, 2001.

The accompanying required supplementary information of management's discussion and analysis on pages 9 to 13 and schedules of funding progress and employer contributions on pages 34 to 36 and additional information pages 37 to 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 41 and 42 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 43 through 86 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 27, 2002

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Plan Net Assets

June 30, 2002 and 2001
(000's omitted)

	2002			2001		
	Pension	**Post-employment Healthcare**	**Total**	**Pension**	**Post-employment Healthcare**	**Total**
Current assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 1,936	433	2,369	453	102	555
Receivables:						
Contributions	4,908	1,100	6,008	6,023	1,350	7,373
Retirement incentive program employer contributions (note 7)	2,106	472	2,578	6,107	1,368	7,475
Total receivables	7,014	1,572	8,586	12,130	2,718	14,848
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,066,699	276,234	1,342,933	1,336,430	343,674	1,680,104
Retirement fixed income pool	927,721	207,900	1,135,621	856,062	191,842	1,047,904
International equity pool	492,231	110,308	602,539	543,586	121,816	665,402
Real estate pool	236,044	52,897	288,941	241,255	54,065	295,320
International fixed income pool	101,170	22,673	123,843	158,335	35,482	193,817
Private equity pool (note 8)	79,259	17,762	97,021	85,191	19,091	104,282
External domestic fixed income pool	43,485	9,745	53,230	40,188	9,006	49,194
Emerging markets equity pool	30,899	6,924	37,823	31,920	7,153	39,073
Total investments	2,977,508	704,443	3,681,951	3,292,967	782,129	4,075,096
Loans and mortgages, at fair value, net of allowance for loan losses of $60 in 2002 and $216 2001	48	11	59	362	81	443
Other current assets	10	2	12	-	-	-
Total assets	2,986,516	706,461	3,692,977	3,305,912	785,030	4,090,942
Current liabilities:						
Accrued expenses	2,792	626	3,418	3,286	736	4,022
Due to State of Alaska General Fund	427	96	523	59	13	72
Total liabilities	3,219	722	3,941	3,345	749	4,094
Commitments and contingencies (note 8)						
Net assets held in trust for pension and postemployment healthcare benefits	**$2,983,297**	**705,739**	**3,689,036**	**3,302,567**	**784,281**	**4,086,848**

(Schedules of funding progress are presented on pages 34 and 35)

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Plan Net Assets

Years ended June 30, 2002 and 2001
(000's omitted)

	2002			2001		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 50,161	11,241	61,402	52,399	11,742	64,141
Plan members	41,724	9,350	51,074	39,805	8,920	48,725
Total contributions	91,885	20,591	112,476	92,204	20,662	112,866
Investment income (loss):						
Net depreciation in fair value of investments (note 3)	(289,117)	(64,790)	(353,907)	(327,201)	(73,325)	(400,526)
Interest	66,717	14,951	81,668	72,603	16,270	88,873
Dividends	45,476	10,191	55,667	62,514	14,010	76,524
Net recognized mortgage loan recovery	69	16	85	6	1	7
Total investment loss	(176,855)	(39,632)	(216,487)	(192,078)	(43,044)	(235,122)
Less investment expense	7,146	1,601	8,747	8,366	1,875	10,241
Net investment loss	(184,001)	(41,233)	(225,234)	(200,444)	(44,919)	(245,363)
Other	4	-	4	(3)	(1)	(4)
Total additions	(92,112)	(20,642)	(112,754)	(108,243)	(24,258)	(132,501)
Deductions:						
Benefits	222,897	56,946	279,843	210,945	48,928	259,873
Refunds of contributions	2,549	571	3,120	3,058	684	3,742
Administrative expenses	1,712	383	2,095	1,583	355	1,938
Total deductions	227,158	57,900	285,058	215,586	49,967	265,553
Net decrease	(319,270)	(78,542)	(397,812)	(323,829)	(74,225)	(398,054)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	3,302,567	784,281	4,086,848	3,626,396	858,506	4,484,902
Balance, end of year	**$2,983,297**	**705,739**	**3,689,036**	**3,302,567**	**784,281**	**4,086,848**

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2002 and 2001
(000's omitted)

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 2002 and 2001, the number of participating local government employers was:

	2002	2001
School districts	52	53
Other	5	7
Total employers	57	60

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 2001 and 1999, the dates of the two most recent actuarial valuations, Plan membership consisted of:

	2001	1999
Retirees and beneficiaries currently receiving benefits	7,333	6,486
Terminated Plan members entitled to future benefits	767	1,150
	8,100	7,636
Current Plan members:		
Vested	5,499	5,256
Nonvested	4,316	4,140
	9,815	9,396
	17,915	**17,032**

(b) Pension Benefits

Vested employees hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2002 and 2001
(000's omitted)

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, (2) employees hired after July 1, 1990 with 25 years of membership service, and (3) employees who are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2002 and 2001
(000's omitted)

If an active Plan member dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average base salary at the time of death and the credited service that would have accrued had the Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

If a Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled Plan member receives normal retirement benefits.

(f) Contributions

<u>Plan Member Contributions</u>

Plan members contribute 8.65% of their base salary as required by statute. The Plan member contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

<u>Employer Contributions</u>

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability or funding surplus over a rolling twenty-five year period.

(g) Administrative Costs

Administrative costs are financed through investment earnings.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2002 and 2001
(000's omitted)

(h) Due To/From State of Alaska General Fund

Amounts due to/from the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(c) GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that Plan net assets be split between pension and postemployment healthcare. To meet these requirements, Plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily.

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale."

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant. Total income, which includes interest and realized and unrealized gains and losses on securities, is calculated daily and distributed monthly to each participant on a pro rata basis.

Income in the retirement fixed income pool and the external domestic fixed income pool is calculated daily and is reinvested. Total income, which includes interest and realized and unrealized gains and losses on securities, is allocated daily to each participant on a pro rata basis but is not distributed.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2002 and 2001
(000's omitted)

As the emerging markets equity pool recognizes income, the per share value changes, resulting in the recognition of unrealized gains/losses at the pool and participant level. When participants' shares in the pool are sold, previously unrealized income is realized at the participant level.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing

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market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

(e) Contributions Receivable

Contributions from Plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

(f) Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(g) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2001, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of fiduciary net assets and statements of changes in fiduciary net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The adoption of GASB No. 34 had no cumulative effect on net assets. The 2001 financial statements have been adjusted to conform to the requirements of GASB No. 34.

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the

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counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2002 and 2001, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

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The cost and fair value of the Plan's investments at June 30, 2002 and 2001 are as follows:

	Cost	Fair Value
2002:		
Domestic equity pool	$ 1,331,620	1,342,933
Retirement fixed income pool	1,117,114	1,135,621
International equity pool	693,048	602,539
Real estate pool	268,655	288,941
International fixed income pool	120,291	123,843
Private equity pool	116,264	97,021
Emerging markets equity pool	49,086	37,823
External domestic fixed income pool	52,041	53,230
	$ 3,748,119	**3,681,951**
2001:		
Domestic equity pool	$ 1,441,085	1,680,104
Retirement fixed income pool	1,045,994	1,047,904
International equity pool	743,015	665,402
Real estate pool	270,175	295,320
International fixed income pool	211,774	193,817
Private equity pool	99,945	104,282
Emerging markets equity pool	48,775	39,073
External domestic fixed income pool	48,691	49,194
	$ 3,909,454	**4,075,096**

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During 2002 and 2001, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2002	2001
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$(293,734)	(253,377)
Retirement fixed income pool	18,454	45,172
International equity pool	(70,824)	(163,167)
Real estate pool	(4,843)	5,847
International fixed income pool	17,111	(22,888)
Private equity pool	(20,253)	(530)
Emerging markets equity pool	(1,561)	(13,715)
External domestic fixed income pool	1,743	2,132
	$(353,907)	**(400,526)**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2002 and 2001, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up and maintained share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, mortgage and asset-backed securities, corporate debt and other U.S. dollar denominated bonds. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2002 and 2001, the Plan has a 0.17% and 0.05% direct ownership in the short-term fixed income pool totaling $2,369 and $555, respectively. These amounts include interest receivable of $6 and $24, respectively.

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(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up share price of $1,000. Each manager may independently determine the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan's investment in the domestic equity pool totaled 32.98% and 33.32%, respectively, and consisted of the following:

	2002	2001
Domestic equity securities	$1,324,517	1,634,758
Convertible bonds	3,842	2,151
Available cash held in the short-term fixed income pool, other short-term debt instruments and currency	16,885	21,128
Net receivables (payables)	(2,311)	22,067
	$1,342,933	**1,680,104**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan's investment in the retirement fixed income pool totaled 32.93% and 33.19%, respectively, and consisted of the following:

	2002	2001
Mortgage related	$ 402,370	392,601
Corporate	291,951	332,307
U.S. Treasury	202,886	194,959
Yankees	15,352	35,357
Asset backed	72,009	34,574
U.S. government agency	70,055	33,990
Available cash held in the short-term fixed income pool	90,773	40,350
Net payables	(9,775)	(16,234)
	$1,135,621	**1,047,904**

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(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up share price of $1,000. Each manager may independently determine the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan's investment in the international equity pool totaled 32.81% and 33.19% respectively, and consisted of the following:

	2002	2001
International equity securities	$591,088	652,888
Available cash held in short-term debt instruments and foreign currency	8,873	11,473
Net receivables	2,578	1,041
	$ 602,539	665,402

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up share price of $1. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan has a 33.24% and 33.41% direct ownership in the real estate pool totaling $288,941 and $295,320 respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan's investment in the international

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fixed income pool totaled 33.15% and 33.50% respectively, and consisted of the following:

	2002	2001
International fixed income securities	$ 119,655	99,143
Available cash held in short-term debt instruments and foreign currency	1,921	2,017
Net receivables	2,267	92,657
	$ 123,843	193,817

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up share price of $1,000. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan has a 33.13% and 33.56% direct ownership in the private equity pool totaling $97,021 and $104,282, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed emerging markets equity pool. The pool was established May 2, 1994, with a start up share price of $1,000. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan has a 35.00% ownership in the emerging markets equity pool totaling $37,823 and $39,073, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up share price of $1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2002 and 2001, the Plan's investment in the external

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domestic fixed income pool totaled 32.83% and 33.20%, respectively, and consisted of the following:

	2002	2001
Mortgage backed	$ 21,236	24,948
Corporate	10,963	9,428
U.S. Treasury	9,161	8,755
U.S. government agency	1,482	1,985
Asset backed	3,472	1,828
Yankees	331	838
Municipal	328	281
Available cash held in short-term debt instruments	5,097	2,047
Net receivables (payables)	1,160	(916)
	$ 53,230	**49,194**

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions in these currencies. The maturity periods for these contracts range from one to two months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

	2002	2001
Net contract sales	$ 4,049	2,639
Less: fair value	4,337	2,569
Net unrealized gains (losses) on contracts	**$ (288)**	**70**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001 the Board entered into an agreement with State Street Corporation (the Bank) to lend short-term fixed income, marketable debt, domestic equity and international equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

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At June 30, 2002 and 2001, the fair value of securities on loan allocable to the Plan totaled $366,685 and $340,403, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2002 and 2001, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(7) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provided for a retirement incentive program (RIP or Program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participated in the RIP were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired.

Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retired. There were no additions to plan net assets during fiscal year 2002 or 2001.

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When employees terminated employment to participate in the program, they were indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminated. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount. There were no additions to plan net assets during fiscal year 2002 or 2001.

(8) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2002, the Plan's share of these unfunded commitments totaled $133,079 to be paid through the year 2006.

The Plan, through its investment in the real estate pool, entered into an agreement through an external investment manager to provide capital funding for construction of real estate. At June 30, 2002, this unfunded commitment totaled $4,842 to be paid in 2003.

(b) Contingencies

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and seven same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependents, thus excluding coverage for domestic partners of employees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

Although the ultimate outcome of the litigation discussed above is uncertain at this point in time, the Plan believes that an unfavorable outcome, if rendered, would not have a material adverse effect on its financial position or funding status.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. In 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment. The likelihood of an unfavorable outcome is possible, however, the costs would be passed through to employers through the normal contribution process.

(9) SUBSEQUENT EVENT

The Plan contracted for an actuarial audit of the Plan's consulting actuary, Mercer Human Resource Consulting. Based upon a review of the 2000 experience studies and the 2001 valuation reports, including the underlying data and calculations, the auditor (Milliman USA) found the actuarial work to be generally reasonable. The valuations were performed in accordance with generally accepted actuarial standards and principles. However, the auditor found a number of areas where changes are needed, and made additional observations and recommendations for improving the actuarial process.

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The major issues noted by the auditor are categorized under two levels of significance to the overall funding status of the Plan. Level A findings include areas where changes are needed to correct the implementation of a method, calculation, or use of data, and which will result in a financial impact on the actuarial findings. Level B findings are in areas where the auditor recommends changes based on their professional opinion or preferences; these will also ultimately have some financial impact, if adopted, on the resulting actuarial valuation.

The financial impact of level A findings would have increased the June 30, 2001 target liability by $52.2 million, or 1.13%. All level A changes will be incorporated into the June 30, 2002 actuarial valuation report. Those level B changes that do not require prior Board approval will also be implemented for the June 30, 2002 actuarial valuation report; the precise financial effect of these changes has not been determined at this time. Additionally, documentation describing the implications of the remaining level B items that require Board approval will be prepared for presentation to the Board. The Board will then determine which level B items should be adopted and will incorporate those changes in future actuarial valuation reports.

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Schedule of Funding Progress
Pension Benefits
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1996	$2,335,295	2,402,020	(66,725)	97.2%	$465,182	(14.3%)
1997	2,563,693	2,728,050	(164,357)	94.0%	466,455	(35.2%)
1998	2,825,528	2,893,325	(67,797)	97.7%	469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5%	466,414	16.6%
2000	3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5%)
2001	3,468,310	3,651,488	(183,178)	95.0%	496,188	(36.9%)

See accompanying notes to required supplementary information and independent auditors' report.

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Required Supplementary Information
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June 30, 2002 and 2001

Schedule of Funding Progress
Postemployment Healthcare Benefits
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1996	$ 523,461	538,417	(14,956)	97.2%	$465,182	(3.2%)
1997	556,351	592,019	(35,668)	94.0%	466,455	(7.6%)
1998	620,542	635,432	(14,890)	97.7%	469,433	(3.2%)
1999	694,682	677,445	17,237	102.5%	466,414	3.7%
2000	845,315	848,316	(3,001)	99.6%	482,571	(0.6%)
2001	903,919	951,659	(47,740)	95.0%	496,188	(9.6%)

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(Unaudited)

June 30, 2002 and 2001

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits
(000's omitted)

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1997	$ 62,831	14,170	77,001	80%	80%	80%
1998	62,787	13,717	76,504	80%	80%	80%
1999	44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%
2001	46,067	10,324	56,391	114%	114%	114%
2002	32,331	7,245	39,576	155%	155%	155%

See accompanying notes to required supplementary information and independent auditors' report.

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Notes to Required Supplementary Information
(Unaudited)

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(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuation as of June 30, 2001 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year period, which is an open amortization period.

(b) Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from nonoccupational causes.

(c) Retirement age – retirement rates based on the 1997-1999 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of expenses.

(e) Health cost trend –

Fiscal Year	
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

(f) Salary scale – inflation 3.5%, productivity 0.5%, merit (first five years) 1.5%, for a total of 5.5% per annum.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Cost of living allowance (domicile in Alaska) – 65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested

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June 30, 2002 and 2001
(000's omitted)

will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Total turnover – assumptions are based upon the 1997-1999 actual withdrawal experience of the Plan.

(k) Disability – assumptions are based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability under Social Security.

(l) Asset valuation method – no asset gain or loss for the fiscal year is recognized if the expected actuarial value of assets plus (minus) the outstanding balance of previously amortized amounts are within a 5% corridor of the market value of assets. Any amount outside this 5% corridor is set aside and applied to the employer rate as a level percentage of pay over twenty years under the 1% population projection scenario. Valuation assets cannot be outside the range of 80% to 120% of the market value of assets.

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(n) Spouse's age – wives are assumed to be four years younger than husbands.

(o) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(p) New entrants – growth projections are made for active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

(q) Sick leave – 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.

(r) Post-retirement pension – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

(s) Expenses – expenses are covered in the investment return assumption.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

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All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

- Effective June 30, 1994, there was a change in the asset valuation method. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

- Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Disability assumptions were revised based on actual experience in 1991-1995. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

- Effective June 30, 2000, the following changes were made:

  - ➢ There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.

  - ➢ The retirement assumptions were revised based on actual experience in 1997-1999.

  - ➢ The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.

  - ➢ The cost of living allowance was increased from 62% to 65% participation.

  - ➢ For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

  - ➢ The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.

  - ➢ The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal Year	
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

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Notes to Required Supplementary Information (Unaudited)

June 30, 2002 and 2001 (000's omitted)

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1996-1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001 employer contributions being more than the annual required contribution.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Expenses

Year ended June 30, 2002
with comparative totals for 2001
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2002	Totals 2001
Personal services:				
Wages	$ 783	418	1,201	1,198
Benefits	300	118	418	411
Total personal services	1,083	536	1,619	1,609
Travel:				
Transportation	34	24	58	57
Per diem	32	23	55	54
Moving	-	2	2	3
Honorarium	15	10	25	24
Total travel	81	59	140	138
Contractual services:				
Management and consulting	145	7,518	7,663	9,232
Accounting and auditing	21	364	385	367
Other professional services	340	39	379	207
Advertising and printing	22	88	110	117
Data processing	93	9	102	105
Communications	80	19	99	95
Rentals/leases	49	29	78	75
Legal	19	26	45	32
Medical specialists	24	-	24	13
Repairs and maintenance	1	1	2	3
Transportation	1	1	2	2
Other services	12	20	32	50
Total contractual services	807	8,114	8,921	10,298
Other:				
Equipment	15	30	45	100
Supplies	109	8	117	34
Total other	124	38	162	134
Total administrative and investment expenses	**$2,095**	**8,747**	**10,842**	**12,179**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
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Schedule of Payments to Consultants
Other than Investment Advisors

Years ended June 30, 2002 and 2001
(000's omitted)

Firm	Services	2002	2001
State Street Corporation	Custodian banking services	$ 460	430
The Retirement Concepts Group, Ltd.	Data processing consultants	72	151
Powertech Toolworks, Inc.	Data processing consultants	-	6
Mercer Human Resource Consulting	Actuarial services	140	136
KPMG LLP	Auditing services	21	38
State of Alaska, Department of Law	Legal services	29	25
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	19	22
		$ 741	**808**

See accompanying independent auditors' report.